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## Information On Enforcement Of Price Controls

Cost of Living Council **B-179129**  
Internal Revenue Service

**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

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**090300**

APRIL 12, 1974



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-179129

The Honorable Charles J. Carney  
House of Representatives

Dear Mr. Carney:

On August 16, 1973, and in subsequent discussions with our representatives, you requested that we furnish information about the activities of the Cost of Living Council (CLC). This information included data on savings to consumers from refunds and price rollbacks, lawsuits filed by the Government, and exceptions to price controls under the Economic Stabilization Program. The data you requested was furnished by CLC covering Phases I, II, and III of the program. We forwarded this data to you on October 30, 1973, and stated that we would examine it and report to you on its clarity, completeness, and informative value. Background information, information on certain aspects of Phase IV, and our comments on the enforcement data furnished by CLC are in the appendix to this report.

We discussed procedures used in compiling the data with officials of CLC, the Internal Revenue Service's (IRS's) National Office, and the Department of Justice. Also, we examined records supporting claimed savings from refunds and rollbacks, pertinent documents and records of the enforcement activities, and records of litigation cases and negotiated settlements.

SAVINGS TO CONSUMERS

The data furnished to you showed that CLC and the Price Commission had saved about \$51 million in refunds and price rollbacks and that IRS saved about \$35 million, for a total of \$86 million. Savings statistics were derived from various reports and documents and not from a standardized information system. (See appendix, pp. 10 and 11.)

We believe that the \$86 million saving is not a reliable estimate because (1) savings reported included amounts which had not been verified by an investigation, (2) CLC and IRS reported some of the same savings, (3) some

significant savings by IRS were not included, and (4) some of the records supporting savings accomplished by CLC and Price Commission refunds and rollbacks were incomplete or contained inadequate documentation. (See appendix, pp. 11 to 13.)

We believe that the lack of readily accessible and reliable data on refunds and rollbacks for Phases I, II, and III of the Economic Stabilization Program is partly attributable to the lack of a standardized system for compiling such information. In addition, we believe that CLC did not emphasize the need for maintaining complete and accurate records on refunds and rollbacks from enforcement actions. Further, CLC did not review the records to insure that they were completely and accurately maintained. (See appendix, p. 14.)

At the time we completed our field work on February 1, 1974, IRS was developing a system for compiling compliance data, including savings to consumers. On April 2, 1974, IRS officials told us that this system was in operation and would provide complete compliance data for phase IV of the Economic Stabilization Program. (See appendix, p. 15.)

#### LITIGATIONS AND NEGOTIATED SETTLEMENTS

CLC reported in the data furnished to you, that as of August 13, 1973, 244 lawsuits had been filed against alleged violators of the economic stabilization regulations. We obtained data through November 6, 1973, that showed 253 lawsuits had been filed, 169 of which had been terminated. Of the 253 cases, only 40 were price violations, 196 were rent violations, and 17 were pay violations. (See appendix, p. 16.)

CLC also reported at August 13, 1973, that \$401,160 had been collected in civil penalties on court cases for which judgment or settlement was for the Government. As of November 6, 1973, the CLC records showed civil penalty collections amounted to \$414,485. The amounts at both dates were overstated by \$305,900 because a \$287,000 refund to consumers by one firm was erroneously classified as a penalty and \$18,900 was included even though the firm won the case on appeal and did not have to pay any penalties. Not included in CLC's litigation statistics were 136 litigation cases for failure of firms to post base prices of merchandise or services. Civil penalties assessed on these 136 cases amounted to about \$65,000. (See appendix, pp. 16 to 18.)

CLC and Justice officials told us they preferred not to prosecute an alleged violator if they could quickly and effectively gain compliance and economic restitution through administrative compliance procedures. The CLC position is that success of the Economic Stabilization Program depends principally on voluntary compliance not prosecution. (See appendix, p. 17.)

CLC reported that the Government collected \$1.1 million from firms in negotiated settlements of alleged violations when legal action was not considered appropriate. The largest settlement was with a lumber and plywood manufacturer which allegedly raised prices above permitted levels and did not prenotify the Price Commission. The company said an IRS agent had advised it that prenotification was not necessary. The company paid \$450,657 as a settlement in January 1973. (See appendix, p. 19.)

#### EXCEPTIONS TO PRICE CONTROLS

Exceptions to a particular rule or regulation may be granted to individual firms. CLC reported that 48,378 requests had been received for exceptions to the price controls. CLC estimated that about 6,000 of these represented duplicate submissions. Of the estimated 42,000 remaining requests, CLC reported that 5,053 were granted and 11,985 denied. CLC said the remaining cases were either withdrawn, disposed of by regulation changes, or dismissed due to misunderstanding of the regulations by the requestors. CLC's records showed that, in addition to the cases closed, about 1,100 requests were awaiting action. This data was taken from various reports prepared by CLC, IRS, and the Office of Emergency Preparedness and is the best available estimate of exceptions. Data is not available on the economic impact of the exceptions granted and denied. (See appendix, pp. 19 and 20.)

In addition to the firms that requested and were granted relief through an exception, many other firms are not subject to any price controls because of exemptions granted by CLC. Exemptions generally cover entire industries or groups of industries. In determining the extent of price controls over the economy, CLC estimated, in November 1973, that controls covered only about 43 percent of the Consumer Price Index. Since November, CLC has stepped up the process of

decontrol. On February 1, 1974, additional retail establishments were exempted from controls which left about 28 percent of the Consumer Price Index covered. (See appendix, p. 20.)

On January 24, 1974, you requested that we explain any difficulties we had encountered in making this review. We met with CLC officials on August 23, 1973, and requested the data you specified in your request. CLC officials informally gave us this data on October 4, 1973, and said it should not be released until it could be verified. We requested access to CLC records at that time to examine the bases for the statistical data. CLC officials asked that we put our request for access in writing. We requested access in a letter dated October 11, 1973. An official told us on October 23, 1973, that we could have access to the records. On October 26, 1973, CLC officials agreed that the data they compiled could be transmitted to you. We encountered difficulties in completing our work, in addition to the delays in obtaining the basic data, because of the previously mentioned inadequacies in CLC records.

We believe that the inadequacies in the records can adversely affect CLC's capability to insure that price regulations are enforced when noncompliance has been determined. Currently, CLC has overall responsibility to monitor the compliance program. We discussed this problem with CLC officials and suggested that they (1) review the records to determine cases where refunds had been required but were not verified, (2) determine those cases which may be omitted from their records, and (3) direct an IRS investigation of required refunds and rollbacks which have not been verified. CLC officials agreed that the records were not adequate and assigned additional staff to review all compliance cases and follow up on cases which have not been satisfactorily resolved. On April 2, 1974, CLC officials told us that a major portion of this project had been completed.

We discussed this report with CLC and IRS officials on April 2, 1974, and their comments were considered and, where appropriate, incorporated in this report.

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We trust this report will help you to understand the data furnished and the limitations on its accuracy and usefulness. We plan no further distribution of this report unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Stacks". The signature is written in dark ink and is positioned centrally below the closing "Sincerely yours,".

Comptroller General  
of the United States

BACKGROUND INFORMATION AND GAO COMMENTS ON  
DATA FURNISHED BY THE COST OF LIVING COUNCIL  
FOR CONGRESSMAN CHARLES J. CARNEY ON  
ENFORCEMENT OF PRICE CONTROLS UNDER  
THE ECONOMIC STABILIZATION PROGRAM

The Economic Stabilization Program was established under authority of the Economic Stabilization Act of 1970 (Public Law 91-379, 84 Stat. 799, as amended) and has evolved through four phases. Phase I was a 90-day freeze on prices, rents, and pay beginning August 15, 1971. The Office of Emergency Preparedness was responsible for monitoring and enforcing the freeze. The Executive order announcing the freeze established the Cost of Living Council (CLC) to develop and recommend additional policies and to carry on the program after the freeze.

On August 19, 1971, the Office of Emergency Preparedness delegated authority for certain administrative and operating functions to the Secretary of the Treasury. The Secretary established local service and compliance centers in selected Internal Revenue Service (IRS) offices.

The President issued an Executive order on October 15, 1971, establishing Phase II of the program. A Price Commission and a Pay Board were established. Their duties included issuing guidelines for wages and prices, recommending enforcement action to the Department of Justice in violation cases, and deciding requests for relief from the wage and price controls. Phase II began on November 14, 1971, and ended January 11, 1973.

On January 11, 1973, the President announced Phase III of the program. Phase III goals were to further reduce the rate of inflation and establish general confidence in the reasonable stability of prices and wages beyond 1973. Although Phase III was premised on voluntary compliance, CLC retained authority to reimpose specific controls when actions were inconsistent with the standards and goals of the program. During Phase III the Price Commission and the Pay Board were eliminated and their functions were assumed by CLC. On June 13, 1973, a special price freeze was instituted

for 60 days to allow time to develop a new and more effective system of controls.

Phase IV began for most sectors of the economy on August 13, 1973. This involved a sector-by-sector approach to controlling inflation. CLC characterized this program as a tough, mandatory price and wage controls program. Phase IV was to (1) moderate the rate of inflation while minimizing adverse effects on supply expansion, (2) limit the speed and size of pass-through of cost increases in the system while not substantially inhibiting capacity expansion and supply increase necessary to reduce longrun inflationary forces, and (3) prevent the onset of large inflationary wage increases which would lead to new longer term, cost-push inflation.

On July 18, 1973, the President wished to end controls and return to the free market. He said that this would have to be accomplished in successive stages in parts of the economy where it could be safely done or where controls were most harmful.

#### ENFORCEMENT ACTIONS

Prior to Phase IV, administrative enforcement of price regulations was divided between CLC, the Price Commission, and IRS. In Phase IV, IRS is responsible for issuing notices of probable violation and remedial orders to secure refunds and price rollbacks. CLC monitors IRS's compliance actions to insure that an effective compliance program is achieved.

IRS investigates alleged violations of the economic stabilization regulations. Investigations originate from complaints filed by the public and from compliance actions determined necessary by CLC or IRS. As of October 1, 1973, IRS reported that it had received and acted on over 267,000 complaints, made over 300,000 compliance checks, and made 85,000 field investigations.

When IRS determines that a firm may be violating the regulations, IRS issues a notice of probable violation to the firm. Complete statistical data was not maintained on the number of such notices issued. The firm is given an opportunity to show that it is not in violation. If the firm cannot successfully rebut the alleged violation and it

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will not comply, IRS issues a remedial order directing the firm to refund amounts charged in excess of those permitted by the regulations. A remedial order requires that the firm submit a compliance plan for IRS review and approval. When a firm submits an acceptable compliance plan and takes remedial action, IRS is responsible for a followup investigation to verify the refund or price rollback. Refunds are made when customers who have been overcharged can be identified. In other cases, price rollbacks are required to refund excess charges to the marketplace.

When companies do not comply with remedial orders, IRS refers the case to CLC. CLC determines whether to refer the case to the Department of Justice for legal action or negotiate a settlement with the firm. In Phase IV, IRS has been delegated authority to negotiate settlements except for violations by firms with \$100 million or more in annual revenues.

SAVINGS TO CONSUMERS FROM  
REFUNDS AND ROLLBACKS

CLC's estimate of savings to consumers for Phases I, II, and III of the Economic Stabilization Program was reported to Congressman Carney in October 1973 to be about \$86 million as shown below.

	<u>Number of firms</u>	<u>Savings</u>
CLC and Price Commission actions:		
Repurification	40	\$16,395,662
Voluntary compliance	65	13,599,170
Remedial orders	112	18,609,749
Special profit margin	82	1,800,000
Failure to file reports	(a)	<u>b300,000</u>
		<u>50,704,581</u>
Internal Revenue Service actions	(c)	<u>35,000,000</u>
Total		<u>\$85,704,581</u>

<sup>a</sup>Not shown in statistics reported to Congressman Carney.

<sup>b</sup>Applies to one firm.

<sup>c</sup>Not available.

Repurifications are price reductions to below base price levels provided in the regulations to return overcharges to consumers. The violations that necessitated these repurifications resulted from firms' profit margins exceeding base period profit margins, and prices were reduced without need for a remedial order.

Voluntary compliance savings were from firms that recognized they had inadvertently violated price regulations and voluntarily rolled back their prices. These savings involve (1) profit margins that exceeded base period profit margins, (2) markups on items that exceeded customary initial percentage markups, and (3) other price increases that violated the regulations.

When firms did not voluntarily make refunds, the Price Commission and CLC issued remedial orders to require firms to return overcharges to consumers. CLC reported that 112 firms complied with remedial orders and returned overcharges to consumers.

The \$1.8 million reported under the special profit margin category was refunds and rollbacks from an IRS investigation of firms with less than \$50 million in annual revenues for compliance with Phase II profit margin regulations.

CLC reported that the Government collected \$300,000 in penalties for failure to file required reports and that this money had been deposited to the general fund of the Treasury. CLC's records, however, showed that this \$300,000 saving was a voluntary rollback of prices to consumers by one firm. This saving should have been included in the voluntary compliance category.

IRS estimated its verified refund and rollback savings at about \$35 million on 33,500 items or services. IRS data did not show the number of firms. About \$15 million of these savings was compiled from periodic reports of IRS district offices showing significant Phase III savings. About \$4.5 million was based on reports from IRS district offices on enforcement actions in the health industry. IRS estimated that its 379 most significant Phase II rollbacks amounted to \$2.8 million. The remaining \$12.4 million is verified refunds from IRS enforcement actions relating to automobile dealer parts and accessories.

Limitations on accuracy of  
reported savings to consumers

We believe that the \$86 million saving is not a reliable estimate because (1) savings reported included amounts which had not been verified by an investigation, (2) CLC and IRS reported some of the same savings, (3) some significant savings achieved by IRS's actions were not included, and (4) some of the records supporting savings accomplished by CLC and Price Commission refunds and rollbacks were incomplete or did not contain adequate documentation to support the reported savings. Examples of these instances include:

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- The \$50.7 million saving attributable to actions of the CLC and the Price Commission was based on either IRS investigation reports which confirmed that refunds and rollbacks had been made or compliance plans which, according to CLC records, had not been verified by IRS investigations. For example, the \$30.3 million reported as repurification and voluntary compliance savings included about \$13.9 million of unverified savings. At the time we completed our field work on February 1, 1974, CLC was reviewing and updating these records to show how much additional savings had been verified by IRS investigations.
- The estimated \$1.8 million saving from special profit margin investigations related to 52 firms rather than the 82 reported by CLC. We examined IRS reports on 44 of these cases where savings totaling \$1.4 million were claimed. We found that refunds had been verified by IRS investigation in only 5 of the 44 cases, and savings in those 5 cases amounted to about \$255,000.
- CLC and IRS reported some of the same savings due to the method used to compile the savings amounts. In some cases savings shown on the IRS district office reports included savings from actions requiring refunds or rollbacks that CLC or the Price Commission initiated. We compared CLC and Price Commission rollbacks and refunds for 11 firms, with claimed savings of \$3.4 million, with these IRS reports. We found that in three cases savings totaling \$374,000 had also been included in the IRS savings.
- IRS's estimated \$4.5 million saving in the health industry was based on reports covering IRS district offices in only four of the seven IRS regions. We examined reports from all regions and found that these reports showed verified health savings of about \$26.9 million rather than the \$4.5 million reported.
- IRS's estimated savings included \$11.9 million for automobile dealer parts and accessories as of May 18, 1973. IRS's records showed the verified saving on those items as of June 22, 1973, was \$14.4 million.

--IRS's reported savings did not include 1,050 refunds, totaling \$4.5 million, for violations of meat price ceilings.

Also, some of the compliance records used by CLC to compile savings from CLC and Price Commission actions were incomplete, did not support the reported savings, or did not show that all required refunds and rollbacks were being followed up and satisfactorily resolved. We examined records on refunds and rollbacks from 29 firms on which CLC had reported savings of about \$12 million. These cases included savings through repurifications, remedial orders, and voluntary compliance. For example, we found that:

--In two cases the records did not contain documentation to show whether \$289,000 had been verified during IRS's investigations. On these cases, CLC had reported savings totaling \$525,000.

--In two cases savings were overstated by a total of \$56,000 because they had been counted twice.

--In five cases CLC reported savings totaling \$1,256,000, although the records showed that IRS investigations had confirmed savings totaling \$1,182,000.

--In four cases CLC reported savings totaling \$161,000, although the records showed that IRS investigations had confirmed savings totaling \$184,000.

--In one case a \$4.6 million saving was claimed from price reductions by a retail clothing firm. In December 1972 the Price Commission issued a notice of probable violation to this firm because the firm's quarterly reports showed that its markups on goods exceeded the customary markups. In January 1973 the firm submitted an affidavit asserting that it had instituted price reductions and was in compliance. IRS investigated the alleged compliance in April 1973 and its report showed that the violation actually amounted to \$1.7 million. The report showed that, although about \$4.6 million was alleged to have been returned to the market place in reduced prices, such price reductions were a normal sales promotion

technique and the price reductions were insufficient to return any excess gross profit. CLC was not following up on this violation at the time we reviewed this case. CLC attributed this to their administrative oversight. On February 28, 1974, CLC and IRS reviewed the status of this case. CLC and IRS officials decided that, because the firm had not maintained adequate records to prove or disprove that overcharges had been refunded, the case did not merit legal action. A supplemental investigation report was written showing that no further action was to be taken on this case.

In addition to the above 29 cases, which we examined in detail, we noted 18 cases of voluntary compliance for which CLC accepted information submitted by the firms rather than IRS investigations as evidence that about \$291,000 had been refunded. This \$291,000 was included as a voluntary compliance refund. However, two refunds totaling over \$360,000 had been excluded from these statistics.

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We believe that the lack of readily accessible and reliable data on refunds and rollbacks for the first 2 years of the Economic Stabilization Program is partly attributable to the lack of a standardized system for compiling such information. In addition, we believe that the CLC did not emphasize the need for maintaining complete and accurate records on refunds and rollbacks from enforcement actions. Further, CLC did not make reviews to insure that complete and accurate records were maintained.

The inadequacies in the CLC and the Price Commission records can, in our opinion, adversely affect the CLC's capability to insure that price regulations are enforced on cases where noncompliance has been determined. We discussed this problem with CLC and suggested that CLC (1) review the records to determine all cases for which refunds have not been verified, (2) determine from IRS records any compliance cases which may be omitted from CLC records, and (3) direct an IRS investigation of the unverified refunds and rollbacks. CLC agreed that its records were inadequate, and it assigned additional staff to review all its compliance cases and follow up on cases which have not been satisfactorily

resolved. On April 2, 1974, CLC officials told us that a major portion of this project had been completed.

When we completed our field work, IRS was developing a system for compiling compliance data, including data on savings to consumers. On April 2, 1974, IRS officials told us that this system was in operation and would provide complete compliance data for Phase IV of the Economic Stabilization Program.